REPORT OF THE SPECIAL ADVISOR

CONCERNING

DEFICIT AND REPAYMENT ISSUES IN

SCHOOL DISTRICT NO. 8 (KOOTENAY LAKE)

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Appendix 1 – The Financial Position of School District No. 8 (Kootenay Lake) June 30, 2004 Financial Statements: Final Report - prepared by the Secretary-Treasurer

Appendix 2 – Chart – Enrolment Data 1998 – 2007 - prepared by the Secretary-Treasurer

Appendix 3 – Chart – Staffing – Last Five Years by Type - prepared by the Secretary-Treasurer

REPORT TO THE MINISTER OF EDUCATION

CONCERNING FINANCIAL MATTERS IN

SCHOOL DISTRICT #8 (KOOTENAY LAKE)

Introduction:

On October 20, 2004 I was named as a Special Advisor to review the circumstances surrounding the request by School District #8 (Kootenay Lake) for approval of an accumulated deficit and the accompanying repayment plan. I was asked to inspect and evaluate three areas of concern:

- The circumstances leading up to the school district's $3.9 million accumulated deficit,
- The effectiveness of the board's proposed deficit retirement plan and its impact on student learning,
- The equity in education opportunities among communities within the Kootenay Lake school district.

Further I was given guidelines as to the overall amount of time to be allocated to this task, and a specific target for the filing of this report (January 31, 2005).

In this report I will provide my conclusions based on the study that I undertook within the district, and the analyses of the information provided to me. During the course of my study respondents provided information on a very wide range of topics, including boundary issues, the history of amalgamation from December, 1996 to the present, opinions about a whole range of local decisions including office locations and school closures, concerns about employee performance, etc. I have reviewed all of this information, extracting from it the information that I felt was pertinent to the issues I was asked to address. I have not attempted to summarize or comment comprehensively on any other part of matters raised during the review. While many respondents feel that these matters are of major importance, in this report I will refer only to those matters that had, in my opinion, some bearing on the financial circumstances leading to the accumulated deficit. The remainder of the issues I have referred to senior officials in the district for their consideration.

As an example of such an issue, a committee of respondents presented to me directly, and in written form, a proposal centered around the delivery of education in Creston in which responsibility for public education would be assigned legislatively to a new local entity. The plan, as presented to me, was not detailed enough to enable any conclusions about the financial implications of such a change. Another respondent proposed that education in another part of the district should be assigned to a regional district authority. The analysis of such proposals goes beyond the scope of the task I was assigned and would require extensive study of another kind.

My review of the financial affairs of the district covered a period of time when the financial management system was largely dysfunctional. The lack of an adequate system and credible public information created:

- considerable distrust of the validity of past decisions
- an immense amount of criticism of Senior Management and the Board, both personal and organizational
- suspicions about motivation and manipulation of information to promote private agendas
- circumstances where myths, half-truths, or incorrect information were ac-cepted as factual
- ongoing concern about perceived inequities resulting from amalgamation that are purported to be unresolved.

In general, there is obvious disagreement about major decisions taken in the past, and the reasons leading to the current circumstances in the district. Private and local political agendas are also influencing the discussions about management issues in the district.

The district has now moved to hire new staff in the Secretary-Treasurer's office and implement effective accounting and reporting structures. However, the lack of consistent accounting practices over previous years has made financial comparisons difficult. Further, I am reporting on a fluid situation in that the Board is considering a repayment plan substantially different from the one originally proposed to the Minister; I will assume that the plan currently adopted in Committee of the Whole is the one I should be addressing in this report. Other decisions are being made, or are under consideration, that bear on the questions I have been asked to address. In filing this report I will attempt to be as current as possible.

This report provides my personal opinions of the matters I was asked to address. The words I have chosen to describe the situation are mine; no respondents are quoted directly, except for a few references to comments in published documents.

The Process of the Review

I began the review by researching, on the Ministry and school district websites, all published data about the district, including information released by the district concerning its financial circumstances and its application to the Ministry for deficit approval. From this research I developed a set of questions that I needed to explore with district representatives during a week of meetings held in November.

During the week in Nelson I toured many parts of the district, including both administrative locations and schools. Information was gathered in 46 scheduled meetings with various groups and individuals, as well as a number of informal discussions. Two formal meetings were held with the School Board, several with senior officials, two meetings with the DPAC, and meetings with CUPE, the Kootenay Lake Teachers' Federation, the Kootenay Lake Principals and Vice-Principals' Association, several parent groups, Canadian Parents for French, and the Board's auditors. Notes were taken during these meetings; many attendees provided written materials that were collected and later analyzed in preparation for the writing of this report. Whenever issues were raised that I felt were outside of the scope of my investigation I ensured that they were brought to the attention of senior officials in briefing sessions, leaving them to follow up.

At each of the meetings I invited attendees to contact me later with further information, either by email or correspondence, and many have done so. Overall, I estimate that I have collected information from over 150 persons who attended meetings or presented me with materials for my consideration.

During the next stage of the study I reviewed all submitted materials and notes, prepared further questions for senior officials which were presented and responded to through email, and selected from all of these materials those matters that were relevant to the context of this report. The filing of this report with the Minister of Education will complete the process I was asked to undertake.

The circumstances leading up to the school district's $3.9 million budget deficit

In this section of the report I will identify a number of factors that contributed to the deficit problem, with examples. The myriad of details that caused the specific deficit amount are thoroughly outlined in the report of the current Secretary-Treasurer which is attached (Appendix 1). After providing a general overview of the situation I will summarize the major points in that attachment.

There are a large number of factors leading to the $3.9 million deficit, as of June 30, 2004. Many of these are small in magnitude, but the cumulative effect, particularly since it was not well tracked or disclosed, was overwhelming. The causes include specific decisions to spend in many categories at levels higher than budgeted, sometimes in the belief that funds could be reallocated to cover the over-expenditures (as they had traditionally been, with some success) and others without reference to any clearly established budgetary amount. The financial practices of the district were such that it would have been difficult, or impossible, to ascertain the true financial situation in the district at any time through the school year, or to create accurate and timely information in response to inquiries from staff, the Board, or the public, or for use in adjusting expenditure plans. Revenues were optimistically over-estimated. On the other hand, early warning signs, such as the bank account unexpectedly going into overdraft, were not responded to. Management continued to have an over-optimistic attitude, believing that everything would work out at the end of the year. Changes in personnel in the financial office located in Creston and its physical disconnection from senior managers in the district compounded the problem.

Management Factors

The district has only in the current year begun to seriously address the need for downsizing in the light of declining enrolments. To illustrate briefly, enrolment in September, 1998 was 6518, in September, 2003 it was 5803. In September, 2004 it was 5634. District officials predict further declines of about 150 students per year for several more years. Staffing was not reduced in anticipation of the decline, or in response to it. For example, when additional funds for non-enrolling teachers were eliminated in June, 2002 the district maintained the same level of non-enrolling teachers, with no reductions elsewhere to offset the funding loss. In addition I was advised that even though district funds had to be redirected to cover the third year of the teacher salary increase, staffing was not reduced.

In his report to the Board in December 2003, the newly–appointed Secretary-Treasurer pointed out that staffing levels were higher then than they were five years previously, although enrolment had declined by 715 pupils (enrolment down 11%, staffing up by 1.3%). He prepared two graphs to illustrate this data, enclosed as Appendices 2 and 3. Ministry data indicates the FTE Enrolment/Educator Ratio for 2001/02 was 16.4. In 2002/03 it was 17.0; but in 2003/04 it decreased again to 16.3. It was reported to me that an anticipated increase in enrolment in the Special Education area deferred any careful review of staffing levels. It was suggested that staff were hired and assigned late in the school year, even though no specific provision for them was made in the coming year's budget.

Apparently in September, 2003, as more special education students enrolled, staffing was added assuming that the increase in special needs funding would support the costs. Other staff were added under the assumption that the budget was balanced and that there were sufficient financial resources to cover the costs. However, as payroll information found its way into the new accounting system it was clear that there were insufficient funds budgeted to cover all costs. According to senior staff the reality of the staffing issue came as a surprise during the 2003-04 school year; some administrators continued to disbelieve the information until year-end (June, 2004). The new accounting system was showing that the district had in its employ many more staff than people realized. It would appear that teacher hiring in previous years meant that numbers only marginally reduced.

When senior officials compare the staffing of S.D. #8 to districts of approximately the same size, or the provincial average the data suggests that staffing is generous by comparison. In May, 2004 the Secretary-Treasurer reported that:

- *For the FTE Student/Educator Ration (2003-04) the district is 6.07% more generous than the group average and 7.20% more generous than the provincial average.*
- *For the Average Elementary Class Size Ratio (2003-04) the district is 8.98% more generous than the group average and 8.91% more generous than the provincial average.*
- *For the Secondary Grade Ratios (2001-02) the district is 7.66% more generous than the group average and 9.96% more generous than the provincial average for Grades 8 – 12.*

By his calculations if the district adjusted to the equivalent of other districts in the similar group (by 25.538 FTE) at an average cost of $75,800/FTE the district would save $1,935,780 annually. At May, 2004 the district was in the process of planning to reduce by 18.211 FTE of the 25.538. The additional 7.327 FTE would create a reduction of $555,387.

The district has begun to address the staffing issue in a serious way, in order to begin to bring overall staffing into a better balance with current enrolments and financial resources. FTE allocations in the last two budget years are as follows:

Function	Description	2003/04 FTE	2004/05 FTE
1	Administrative Officers	33.0501	35.0500
1	Teachers	337.3965	305.6590
1	Other Professionals	10.2094	9.3418
1.	Educational Assistants (TA's)	88.8929	73.9130
1	Clerical	42.6664	41.8856
1	Other	7.2305	6.5368
	Total for Function 1	**519.4458**	**472.3862**
4	Other Professionals	17.2482	17.2482
4	Clerical	6.5885	6.5428
	Total for Function 4	**23.8367**	**23.7910**
5	Other Professionals	0.2500	1.5000
5	Clerical	0.9286	1.3571
5	Other	76.2550	63.4675
	Total for Function 5	**77.4336**	**66.3246**
7	Other Professionals	0.8500	0.6000
7	Clerical	1.4286	1.1429
7	Other	32.6576	30.8888
	Total for Function 7	**34.9362**	**32.6317**
	Total for All Functions	**655.6522**	**595.1335**

Staffing allocation formulas for 2004-05 vary according to school size and are adjusted to take into account the location of the schools in the district. In the 2004-05 school year the class size average for Kindergarten is 15.53, up from 14.886 last year. In Grades 1-3 the average is 20.084, up from 19.005. In Grades 4–7 the average is 24.6, up from 24.2. One larger secondary school is staffed at 23.2 students per FTE, ranging down to a low in a small secondary school of 11.50 with the overall average at 21.66.

In addition there are 8.54 FTE Student Services Specialist Teachers, most on continuing appointment. Of these 4.3 FTE are involved with Speech and Language programs, 1 FTE is a Psychologist, 0.79 Hearing, 0.8 Physiotherapy, with the remainder providing a variety of support services.

In relation to excluded staff at the district level, in the last year before the two districts were amalgamated, in total there were 18 FTE senior managers. After amalgamation the number was reduced to 13.5 FTE. In 2001 it was 11.4, and remains at 11.5 in 2004. Nonetheless, with continual declining enrolment, the cost of this level of staffing will need to be reviewed.

Financial factors

It was suggested by several respondents that the deficit problem dated back to the date of amalgamation of the two districts into one, but the evidence presented by the Secretary-Treasurer in November, 2004 indicates otherwise. The following table shows information extracted from the relevant financial statements:

Operating Surplus/Deficit Since 1991/92 (not including debt services)

Year	Former Nelson District	Former Creston District	Combined Districts
1991/92	1168493	149497	1317990
1992/93	852469	363517	1215986
1993/94	764494	247936	1012430
1994/95	-196891	240029	43138
1995/96	-67354	-86631	-153985
1996/97			-321873
1997/98			-856262
1998/99			-465802
1999/2000			-88576
2000/01			-439485
2001/02			**267298**
2002/03			-770946
2003/04			-3925160

Note that in 2001/02 the district could have chosen to address the "Appropriations Not Made" issue and start to reduce the liability (see below). However, the surplus was applied against the following year's expenditures.

For many years the district did not follow standard Ministry accounting practices, although auditors from time to time encouraged the district to do so. Little attention was paid to the essentials of budgetary and financial management, with considerable reliance on informal decision-making processes. For example, many individual managers and school administrators were able to make decisions on the basis of what they felt was accurate information without reference to any central control of overall expenditures and revenues. They believed that the expenditures they were incurring were acceptable, within their general mandate, and that they would be covered by budget allocations, or by adjustments that might be made by financial staff at the end of the school year. Information on how various accounts were faring was not provided in an up-to-date and easily understood manner to managers and school administrators. It would appear that little effort was made to make adjustments as the school year progressed, to reflect new demands or decisions that affected overall budgets in specific accounts.

Rather rudimentary processes were often used in the budgetary process. For example, budget allocations were often created based on averages rather than actual projected costs. This led to problems such as that encountered in the 2002-03 budget for the Distance Education School of the Kootenays (DESK). The budget was developed based on 250 students, with sufficient teachers budgeted for at the average salary level. 315 students enrolled, and teachers were

allocated to provide service, many at higher than average salaries. Mid-year budget adjustments were not made to compensate. As a result DESK ran a deficit in 2002-03, and even then it was understated, since an accounting error resulted in some revenues being counted twice. The previous Secretary-Treasurer acknowledged to the Board in September, 2003 that he had made significant errors in revenue projections that would impact the financial results of that year.

The previous Secretary-Treasurer attempted to cover the jobs of two other managers who left the employ of the district, the Director of Operations and the Maintenance Supervisor in Creston. At first he was optimistic that he could handle the three sets of responsibilities satisfactorily, but with the supervision of about 300 CUPE custodial and maintenance staff, and the handling of grievances and CUPE contract negotiations, he was overwhelmed. It would appear that this situation seriously affected the financial management processes within the district. After about nine months the previous Secretary-Treasurer asked to be relieved of the financial management responsibility. At this time the Board moved to hire a new Secretary-Treasurer and Assistant Secretary-Treasurer.

Previous Secretary-Treasurers and financial staff would attempt at year-end to reconcile expenditures and revenues in various accounts to budgeted amounts, assigning expenditures to accounts in unintended ways, or using unspent funds from one account to attempt to balance in another. Commitments to expend in subsequent years were not always incorporated in year-end financial statements, a practice auditors accepted at the time on the basis that the commitments were not legally binding and could be uncommitted by later Board decision. On the other hand, administrators assumed that the commitments were a "promise to pay" and would be honored; they undertook spending in subsequent years as if the commitments were firm.

A major example of the problems this created relates to the accounts the district now labels "Appropriations Not Made". In other districts these are called "carry-forward" accounts. Most typically, each school has an account through which school-based funding provided by the district is managed. Schools are allowed to carry forward surpluses from one school year to cover expenditures in a subsequent school year. In the Kootenay Lakes district the schools believed they had "actual money in the bank" and made staffing and spending decisions in a subsequent year based on that belief. However, in the previous year central office staff had used the funds allocated to those accounts to cover other expenditures that had actually been made, presumably in the hope that subsequent expenditures from the "carry-forward" accounts could be covered as they were incurred.

Schools were allowed to increase staffing hours beyond base staffing levels using "their own operating funds", real or imagined. Many school-based decisions were made and acted on, even to the extent that staff were hired and paid by the payroll department, without any internal control ensuring that staff were promptly charged to appropriate funds at actual costs. Rather, staffing expenditures were charged to "general staffing" in the expectation that costs and available funding could be reconciled at the end of the year. Information related to payroll adjustments did not flow immediately into budgetary control systems. Many such transactions were sorted out "after the fact".

During the course of the 2003-04 school year the new Secretary-Treasurer arrived in the district and began quickly to implement a new computer-based accounting system. As accounts were moved to the new system, many inappropriate past practices were identified, and revenues and expenditures in many accounts needed to be reconciled. The current Secretary-Treasurer has

prepared a thorough analysis of the financial position of the school district as of June 30, 2004 containing many details that contributed to the final deficit (Appendix 1). He points out that the district was faced with a reported operating deficit coming out of the 2002-03 school year of $387,726 and did not have the financial ability to start to address it. (In fact, if current accounting practices had been used in that year the actual amount would likely have been closer to $771,000.)

In their letter to the Board the auditors (Berg, Naqvi & Co.) summarized the situation as follows:

> *The deficit increase in the current year (2004) can be attributed to overspending in operating and special purpose funds. Unrealistic revenue projections, Ministry clawbacks and commitments to staffing early in the year may have been factors. Overspending was not restricted to staffing. Budget variances also occurred in professional development and travel, general maintenance, custodial supplies, utilities, transportation costs, and equipment lease costs. In addition, there were assets that had to be written down, prior year special purpose fund deficits, and prior year unadjusted items which, although not individually material, collectively had an impact.*

The overestimation of revenues in the 2003-04 budget was very significant. Two components, an amount to cover a payable in the Adult Education account ($211,035) and shortfall caused by the prior year Enrolment Audit ($33,275) should have been set aside and not included as potential revenue against which expenditures could be planned. A Special Education audit reduced revenues by $187,500, but this occurred after the expenditure plan for 2003-04 had been put in place, making adjustments difficult. Revenues that should have been directed to the trust accounts for DESK ($677,496) and the Schools Meals program ($205,000) were included in general revenues as well. Other funds were forecasted as revenue but were earmarked for specific expenditures and not available for other purposes. Finally, the forecasted revenue from some sources did not meet expectations. At the end of the 2003-04 school year the overall shortfall in revenue was $3,190,989. Unfortunately this lost revenue had not been acknowledged, in large part, throughout the school year, and expenditures continued as if it was going to be available.

While some categories of expenditures throughout the year were held under budgeted amounts, it was necessary to make significant adjustments in the ways in which expenses were being charged out to various accounts. Seven separate adjustments in expenditures that had not been budgeted were required to resolve outstanding obligations. Transfers to trust areas that had not been budgeted added to over-expenditures. Areas that substantially exceeded budgeted amounts include substitute salaries and benefits, district travel, travel/recruitment, curricular/extra-curricular travel, professional development, recognition/retirement, and the Creston office relocation account for which no budget had been identified. Equipment replacement also exceeded its budget. Over-expenditures seem to occur inadvertently; in most cases decisions were made in the belief that funds were available, or could be made available at year-end, to cover the costs. The lack of a clear budget decision-making structure, and tight controls on budgeted accounts allowed this situation to develop during the course of the year.

As a result of the shortfall in revenue and the over-expenditures, the district incurred an overall accumulated deficit of $3,925,160. Senior managers acknowledge that they were unaware of the magnitude of the problem as it developed, and that much of their advice to the Board was based on what is now obviously incorrect information. Management focused strongly on managing

educational programs and issues, assuming incorrectly that all was well in the financial management system. I have pointed out to senior management that, while the accounting and reporting systems are now developing soundly, much remains to be done to improve the way budgetary planning and management is handled. This includes the creation of a responsibility center management approach so that each manager, including school-based administrators, knows the areas of budget for which he or she is responsible, and so that systems are available that can be relied on to deal accurately with commitments, monthly variances, and on-going adjustments during the year. Approval systems for expenditures and budget adjustments need clarification and, in some instances, redevelopment.

The Effectiveness of the Board's Proposed Deficit Retirement Plan and Its Impact on Student Learning

My discussions with district officials centered around several repayment plans, beginning with the one submitted to the Minister in August, 2004. That plan indicated reduced expenditures in the current year of $500,000, spreading the rest of the required reductions out over the subsequent four years. As I discussed the options for reducing expenditures, I formed the opinion that the district could make the necessary expenditure reductions more quickly. Various forms of four and five year repayment plans were reviewed. The district has now settled on a repayment plan that would cause all of the expenditure reductions necessary to retire the deficit in the first two years, and holding these reductions in place for three additional years in order to fully retire the deficit. The table the district has now submitted to the Minister is as follows:

Amended 5 Year Plan	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Year 5 Increase					0	
Year 4 Increase				0	0	
Year 3 Increase			0	0	0	
Year 2 Increase		356290	356290	356290	356290	
Year 1 & Future Base	500000	500000	500000	500000	500000	
New Level By Year	500000	856290	856290	856290	856290	**3925160**

This proposal, of all the variations considered, allows the Board to make the necessary adjustments earliest in the repayment process. Although many other factors during these years will cause the need for budgetary adjustments, including declining enrolment, any changes in Ministry grants, etc., the district will avoid having to make a long series of expenditure decisions related to the deficit. For the school year following the five year period, all other things being equal, the district should have available to it $856,290 that would no longer need to be applied to the deficit.

It should be remembered that the deficit was not, nor will be, the cause of all of the reductions that the Board must make in order to balance its annual budget. For example, three issues are causing further reductions in the current year's budget, including unbudgeted funds required for substitute accounts, partial coverage of the Appropriations Not Made, and unanticipated reductions in Ministry grants.

The information provided to me is that for the current school year the following reductions were made:

- Professional staff reduced by 28 FTE
- Education Assistants reduced by 400 hours
- Custodial staff reduced 30 minutes per day
- Custodial staff further reduced by 1 FTE (non-replacement of vacancy) and 1.125 FTE daytime staff
- Custodial staff reduced on non-education alternate day cleaning
- Reduced bus staff for 3 discontinued routes
- Reduced formula for clerical assistance
- Moved to a days in session year for 10 month CUPE support staff
- Reduced 10-month support staff employees 4 days
- Reduced CUPE noon hour supervisors
- Reduced school budgets to reflect enrolment decline and actual levels of support
- Deferred equipment expenditures
- Reduced lease payments for KLLC lease
- Minor adjustments in trustee travel, cultural events, extra-curricular travel, etc.

It should be noted that this district has only in its current budget turned its attention to these kinds of adjustments. Many other districts in the province made similar adjustments, beginning years ago, to address the shortfalls between budgeted revenues and expenditures. The shock of these reductions, as expected, is still present in the district. Despite these reductions it appears that services to students have been impacted no more severely than they have in districts of similar size and in similar circumstances.

I was also provided with information by senior officials concerning the services that would be maintained for the 2004-05 school year, after all of the necessary reductions had been made. These include:

- A pupil-teacher ratio that is still lower than similar sized districts and the Provincial average
- Elective programs at small secondary schools
- Elementary Learning Assistance at the same formula levels
- Elementary Library time at the same formula levels
- Elementary Counseling at the same formula levels
- Elementary school funding for high incidence students (severe learning disabilities)
- Youth and Family Worker support
- Added paraprofessional support for elementary students with severe behaviour problems
- Continuation of support for high cost elementary students on an individual basis
- District specialist support services
- Alternate programs at Salmo, LVR, Matrix, Mount Sentinel, J.V. Humphries, Prince Charles, and W.E. Graham schools
- Two district Curriculum Resource Centres
- Computer Technology Assistance District Teacher
- Staff development funding at the same level

- No school closures for 2004-05
- District Principal for curricula, School Growth Plans and Accountability Contract
- Facility improvements
- DPAC funding at same level
- Contingency funding for staffing

Among these items there are many that have been eliminated or reduced by other districts. Some of these reductions would have little direct short-term impact on students, while the impact of others on specific students would be severe. However, in my opinion the Board has considerable room in which to identify expenditure reductions that would address the second round of reductions to meet the deficit repayment requirement.

Other matters that could contribute to the deficit repayment were identified, as follows:

- Reducing the number of trustees on the Board, and the associated expenses
- Eliminating the newly added part-time administrator for French Immersion programs, even though no other administrator is bilingual, and the addition was recommended by a program review
- Resolving the border issue with School District #20 so that issues surrounding revenues and expenditures for out-of-district students are resolved
- Reducing the number of senior management positions and expenditures on outside consultants
- Ensuring that expenditures that could properly be classed as capital are charged to the local capital account and not the operating budget
- Further reducing administrator travel budgets
- Further school closures and realignments to reflect declining enrolments
- Possible adjustments in the school calendar
- Canceling alternate programs where costs exceed revenues

District officials predict that expenditure reductions for the next school year will need to approximate $2 million, including the $356,290 required to meet the deficit repayment plan. Many of the current reductions will be revisited and expanded, if possible. The areas above will all need to be reviewed to determine those that can be reduced or eliminated. Reductions to meet the deficit will be a relatively small part of the problem the district faces.

I am sure that the Board and its senior officials wish to meet their financial obligations with the smallest possible amount of dislocation in services to students as possible. In reviewing the information in this section I conclude that it should be possible to achieve this goal by reconsidering many of these items. The largest part of necessary reductions is, by far, for reasons other than deficit repayment. The actions that will be taken by the Board to meet the $2 million reduction may well impact quite negatively on the educational service to some students. However, the deficit repayment amount will be a relatively small part of the cause. Therefore, looking at the specific question asked of me, I believe it is possible for the Board to manage the deficit repayment issue without severely impacting student learning.

The equity in education opportunities among communities within the Kootenay Lake school district

Equity is a concept that is defined differently by different interest groups. My definition of equity includes the notions of fairness and balance; situations can be equitable although they are substantially different. If students in various parts of the school district are getting a fair share of resources and opportunities, and if the decisions about programs and resources are balanced, I believe the situation to be equitable. In any district that has a wide variety of schools from large to small, urban to remote, old to new, there are bound to be substantial differences in the way programs are organized and delivered. Availability of staff interested and qualified to operate a specific program, student interest, appropriateness of facilities and availability of resources are all factors that can lead to differences in school offerings. One would hope that disadvantages of one sort are compensated for by advantages of another sort.

I identified a number of historical efforts on the part of the school district to ensure that staff and students were treated equitably. Perhaps the most obvious example occurred at amalgamation time. Creston salaries were generally lower than equivalent salaries in Nelson. All staff members were brought up to the higher level of salary in every case. This was certainly an equitable, even if costly, approach to reconciling different salary scales.

A specific review of equity was undertaken by the previous Secretary-Treasurer. The results of that review indicated about 40 service levels and funding allocations that were judged to be inequitable. These have been reconciled and, I am told, about 99% of the differences were eliminated. A recent example has corrected a perceived inequity in the way in which school lunch programs are funded. School rental practices have yet to be reconciled, and differing practices may result in some inequity. I understand that this matter is begin addressed now. The basic resource allocation system now in use is very much formula driven, and these formulas are applied consistently throughout the district.

A number of respondents during my discussions indicated their opinion that there were substantial inequities between various parts of the district. In each case I asked respondents to indicate where they felt inequities existed. The response to this question indicated to me that many had differing definitions as to what equity might be. In almost every case, items mentioned were programs particular to one school that did not exist in another. In other words, differences in school programs were often cited as inequities.

Perhaps the most significant difference frequently cited as inequitable is the absence of a French Immersion program in Creston. Quite recently a group of Creston parents undertook to survey parents in the area to determine whether there was sufficient support to initiate a Late Immersion program in that location. While I heard some complaints about a lack of effort to conduct a thorough survey, results indicated that there was insufficient support to initiate the program. I was also advised that should such support materialize the district would be quite prepared to consider instituting the program in Creston. Since the financial implications of this new program would not be substantial, I am confident that the Board would be in a position to mount the program if the demand for it was demonstrated.

The only other example provided was the existence of a band program in one elementary school in Nelson. This program is dependent on having a teacher with the interest and skill to mount

such a program, and cannot be replicated easily elsewhere unless there is a teacher, a facility, and resources, including instruments and music.

After visiting almost all of the schools in the district, and discussing the programs offered by each school, I concluded that there is fairness and balance in educational opportunities among the communities in the district.

Summary and Recommendations

In this report I have, after a review as thorough as my mandate allowed, indicated the main reasons for the district finding itself with an unusually large deficit. I have concluded that the district's plan to retire the deficit is vigorous and sincere, and will remove the decisions around meeting the deficit repayment from the decision-making picture as early as possible – after the first two years. Therefore I recommend that the Minister approve the 5-year repayment plan as submitted in January, 2005.

Recommendation 1: That the Minister approve the five-year repayment plan as presented by the District.

The district has asked for the Minister's approval to utilize local capital reserve funding to pay for the costs in relocating the former business office to Nelson. This seems to be a reasonable request to ensure that the relocation does not become a charge on the operating budget.

Recommendation 2: That the Minister approve the use of local capital reserve to cover the costs of office relocation.

Because of the inadequacy and accuracy of financial information the district has not conducted an effective budget development process in recent years, causing considerable suspicion about reasons for various budget decisions. The lack of dependable information has caused endless debate as to what was truly happening.

Recommendation 3: That the School Board and its senior management move immediately to ensure that the information used in the open budget planning process with its partner groups is accurate, and enables all groups to share facts, consider sound alternatives, and create suggestions for Board consideration in the budget decision-making process.

Recent improvements in the accounting and reporting systems are providing managers and school trustees, for the first time, with reliable and current information about the state of district finances. However, in my view the district still does not yet have a clear authority and responsibility process that ensures that:

- all sectors of the budget are assigned to specific managers in clearly understood ways
- managers are aware as to the extent and kinds of discretion they can exercise in managing their sections of the budget and how commitments should be recorded in central accounts
- managers know their limits on dealing with variances from established budgets and have clearly laid-out processes for reporting ordinary variances, or for requesting approval and assistance in dealing with extra-ordinary variances

- all managers have a role in annual reviews of formulas that allocate resources to various sectors in the district
- communications about budget status to managers are frequent and detailed.

I am confident that the district will address these issues as time permits, because they are necessary to ensure that large deficits do not reoccur in normal circumstances.

Recommendation 4: ***That the district move to review all aspects of its financial management system to ensure clarity, completeness, and accuracy in the way in which revenues and expenditures are managed.***

I was advised that the members of the Board have not, until recently, been satisfied with the management information provided to them on a regular basis and that some of that information has been incorrect. Further, some trustees are unclear about the respective roles of the Board and Senior Management in terms of budget management, and this issue should be included in the review of the financial management system. The focus of the Board should be on setting targets, developing priorities, and approving major budget variances that affect current or future budgets; senior managers should be delegated responsibility for ensuring that budgets, as approved, are managed effectively. Communications between the two levels should ensure that both groups remain fully informed and appropriately involved in managing the budget as the year unfolds.

Recommendation 5: ***That the review of the financial management system includes consideration of clarifying the respective roles of the Board and Senior Management in the financial management process.***

I would like to express my appreciation to the staff of the district and to all those who participated in providing me with information for the purposes of this review. Staff responded quickly and thoroughly to all requests for information. Persons interviewed were candid in their comments, and many did large amounts of preparation, providing me with a wealth of documentation to illustrate their concerns. Board office staff were most helpful in arranging meeting schedules and ensuring that the complex logistics for my visit were looked after. I thank them all for their willingness and enthusiasm in helping me complete this assignment.